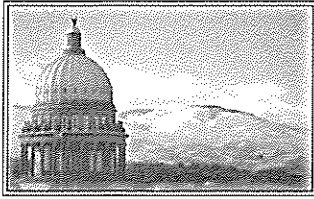


State of Idaho Internal Control Report

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in accordance with Government Auditing Standards

Fiscal Year 2011



Legislative Services Office Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

February 21, 2012

Honorable C.L. "Butch" Otter, Governor
Honorable Members of the Legislature
Honorable Donna M. Jones, State Controller

We are pleased to submit the State of Idaho *Internal Control Report* as it relates to our audit of the statewide *Comprehensive Annual Financial Report (CAFR)* covering the fiscal year ended June 30, 2011. This *Internal Control Report* is an integral part of the *CAFR* audit process and is required by *Government Auditing Standards* issued by the Comptroller General of the United States.

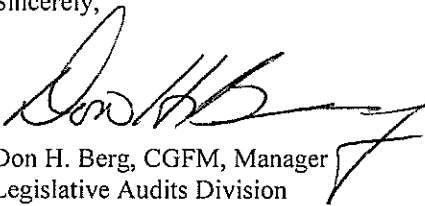
These standards require that we consider the internal control over financial reporting and disclose weaknesses that could have a material effect on the financial statements. We are also required to perform and disclose the results of tests of compliance with certain laws, regulations, and other requirements that could have a direct and material effect on the financial statement amounts.

The results of our audit identified six weaknesses in internal control. Although the risk of misstatement exists as a result of these issues, none of these weaknesses resulted in material misstatements that were not corrected as a result of the audit. As such, we were able to issue an unqualified opinion on the financial statements.

For your convenience, we have inserted the applicable portion of the agency's response after each issue and included the entire responses in Appendix A.

This report is available on our website at www.legislature.idaho.gov, and the *CAFR* can be obtained from the Idaho State Controller's Office on its website at www.sco.idaho.gov or by calling 208-334-3100.

Sincerely,



Don H. Berg, CGFM, Manager
Legislative Audits Division

Mike Nugent, Manager
Research & Legislation

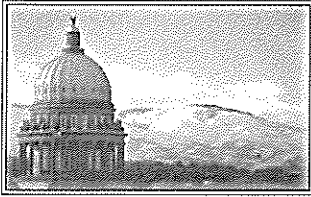
Cathy Holland-Smith, Manager
Budget & Policy Analysis

Don H. Berg, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Schedule of Findings and Responses for the Year Ended June 30, 2011	3
Findings and Responses for the Year Ended June 30, 2011	4
Appendix A – Responses from Agencies to the Findings and Recommendations in this Report	12



Legislative Services Office Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

December 23, 2011

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Honorable C.L. "Butch" Otter, Governor
Honorable Members of the Legislature
Honorable Donna M. Jones, State Controller

We have audited the basic financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Idaho, as of and for the fiscal year ended June 30, 2011, that collectively comprise the State's basic financial statements, and have issued our report thereon dated December 3, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors have audited the financial statements of Boise State University, Eastern Idaho Technical College, Idaho State University, Lewis-Clark State College, University of Idaho and their respective component units, the Endowment Fund Investment Board, State Lottery Commission, Public Employees Retirement System of Idaho, Public Employees' Deferred Compensation Plan, Idaho Judges' Retirement Fund, IDeal Idaho College Savings Program, Idaho Individual Risk Reinsurance Pool, Idaho Small Employer Health Reinsurance Program, Petroleum Clean Water Trust Fund, Idaho Building Authority, Bond Bank Authority, and the Idaho Housing and Finance Association as described in our report on the State of Idaho's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported separately by those other auditors. The financial statements of the Idaho Housing and Finance Association, Idaho State University, University of Idaho, Eastern Idaho Technical College Foundation, Boise State University Foundation, Idaho State University Foundation, and the Public Employees' Deferred Compensation Plan were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the State of Idaho is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Idaho's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Idaho's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Idaho's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

Don H. Berg, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 11S-3, 11S-5, and 11S-6.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be significant deficiencies: 11S-1, 11S-2., and 11S-4.

Compliance and Other Matters

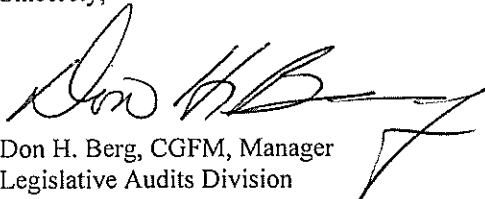
As part of obtaining reasonable assurance about whether the State of Idaho's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the State of Idaho in a separate correspondence issued at the State agency level.

Responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management of the State of Idaho, the Governor, the State Controller, members of the Idaho State Legislature, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a public document and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "Don H. Berg", followed by a long horizontal line and a large, stylized flourish.

Don H. Berg, CGFM, Manager
Legislative Audits Division

**STATE OF IDAHO
INTERNAL CONTROL REPORT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011**

HEALTH AND WELFARE, DEPARTMENT OF

- 11S-1 The processes for recovering interim Medicaid payments are not properly established, documented, or monitored.
- 11S-2 Accounts receivable records were not consistently established for interim payments to Medicaid providers.
- 11S-3 The receipt suspense account is not properly reconciled and had an improper balance of \$22 million at year-end.
- 11S-4 Rotary fund checks paid to Medicaid providers lack appropriate controls and documentation.
- 11S-5 Revenues and expenses were overstated by \$181 million because reimbursements were not reported correctly, in accordance with accounting standards.

LABOR, DEPARTMENT OF

- 11S-6 Federal unemployment insurance (UI) benefit activity was reported incorrectly.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

HEALTH AND WELFARE, DEPARTMENT OF

FINDING 11S-1

The processes for recovering interim Medicaid payments are not properly established, documented, or monitored.

A new Medicaid Management Information System (MMIS) was implemented by the Department through a contract with Molina Medicaid Solutions (Molina). Due to significant implementation issues, Medicaid providers were unable to receive prompt payment for services rendered for several months. As a result, the Department established an "interim" payment process for providers to receive payments based on estimates. Interim payments totaling approximately \$118 million were issued during fiscal year 2011.

Providers that received interim payments were sent repayment agreement forms to establish the method for the Department to recover these payments. Four methods were available for providers to repay interim payments, and Molina was assigned the responsibility to track each provider's option and process the repayments. Our tests showed that 95% of providers (38 of 40) did not return the completed repayment agreements as requested. Although some providers called to select a repayment method, formal documents were not available as required by Federal Regulation (42 CFR Sec. 433.316) to support the selection or authorize recoupments for those providers that did not respond.

Follow-up letters were sent by the Department to providers who did not repay in accordance with the agreement. Most letters stated that providers must repay the entire interim balance in four monthly installments or that 100% of current claims submitted would be recouped to offset the balance until paid in full. However, most recoupments continued at 25% of current claims submitted, with no additional documentation provided to support the decision.

The Department delegated to Molina the authority to issue the interim payments, establish accounts receivable for the eventual recovery of these payments, and process the recoupments and collections from providers. No evidence exists to document the procedures or controls established by the Department to ensure that all interim payments were properly issued, established as a receivable, properly recouped or collected, and any remaining balance identified for additional pursuit. At a minimum, this situation raises significant concerns that interim payments were not properly accounted for, identified, or recovered.

RECOMMENDATION

We recommend that the Department improve internal controls over the handling and processing of non-routine Medicaid transactions and properly monitor all activities of the contractor.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

AGENCY'S CORRECTIVE
ACTION PLAN

The Department did not anticipate needing to issue emergency payments to providers. Due to problems with the new Medicaid system, many providers did not get paid when the system went into production. This situation was compounded by the unrelated payment holdbacks due to the State's budgetary situation. Therefore, the Department had to act quickly and decisively and issue interim payments to its Medicaid providers. The success of getting this stabilization money into the hands of providers prevented economic catastrophe for many of them.

The Department agrees there were insufficiently documented processes established to monitor the issuance and recovery of emergency interim payments during the time of the crisis. Building on this experience, DHW is formalizing procedures and controls to address non-routine Medicaid transactions during emergency situations. It should be noted, that as of February 10, 2012, 98% of the interim payments have been recovered, with collections continuing.

FINDING 11S-2

Accounts receivable records were not consistently established for interim payments to Medicaid providers.

Interim payments were issued to Medicaid providers between July 2010 and February 2011, and the process for establishing accounts receivable to recover these amounts was delegated by the Department to Molina. Most of the receivable invoices, establishing the account receivable, were issued in either December 2010 or February 2011. A few other individual payments were established in the accounts receivable system on an as needed basis. However, no consistent process was established to ensure that a receivable was established for each interim payment.

Our evaluation identified some providers that had one account established which included multiple interim payments, while others had several separate accounts established for each payment. In addition, the receivable amount established did not always agree with the amount of the interim payments; some accounts were closed and reestablished at reduced amounts, with no evidence to support the changes; and two interim payments made through the rotary fund were not established as receivables.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

We also noted that collections posted to the receivable records did not always agree with the cash deposit data provided by Molina. Some differences were due to overpayments by providers, but other amounts could not be readily identified using the existing records.

RECOMMENDATION

We recommend that the Department establish adequate procedures to ensure receivable balances are established correctly, changes are documented, and the accounts are monitored by the Department.

AGENCY'S CORRECTIVE
ACTION PLAN

The Department did not anticipate needing to issue \$118 million dollars in emergency payments to providers. Due to problems with the new Medicaid system, many providers did not get paid. Especially on the heels of unrelated payment hold-backs, the Department had to act quickly and decisively. The success of getting stabilization money promptly into the hands of providers prevented economic catastrophe for many of them.

The Department agrees there were insufficiently documented process and controls to consistently establish accounts receivable and post payments during the time of the crisis. Building on this experience, DHW is formalizing procedures and controls to address these types of situations should they occur in the future. As of February 10, 2012, 98% of the interim payments have been recovered, with collections continuing.

FINDING 11S-3

The receipt suspense account is not properly reconciled and had an improper balance of \$22 million at year-end.

The Department utilizes a complicated process of interdependent automated systems to transact financial activity. Most transactions are initiated in various sub-systems, which are then electronically interfaced to the Department's "FISCAL" accounting system, where the financial transactions and accounting information are created.

Coding structure in the FISCAL system is developed to provide the data necessary to manage, track, and report specific activities. For receipt transactions, most amounts are recorded to the suspense account and subsequently adjusted to the appropriate program or activity, once additional information or processing is completed in other sub-systems. The reconciliation of the receipt suspense account is essential to ensure that all amounts are adjusted promptly and accurately.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

During fiscal year 2011, no reconciliation of the receipt suspense account for the activities relating to Medicaid interim payments was completed, which contributed to the improper negative balance of over \$22 million at year-end. Although the situation involving the Medicaid interim payments was discovered by Department staff in July 2011 and subsequently corrected, other activities within the receipt suspense account are not reconciled promptly or at all.

RECOMMENDATION

We recommend that the Department regularly reconcile the receipt suspense account to the various sub-systems to ensure that activity is recorded promptly and accurately.

**AGENCY'S CORRECTIVE
ACTION PLAN**

The Department agrees that an abnormal debit balance of \$22 million existed at year end in the DHW deposit suspense account. The Department installed a new Medicaid claims processing system and soon experienced problems getting payments to providers. Finding an urgent solution to pay providers was essential to avoid financially harming providers, especially after a holdback that also delayed payments. Fixing this problem forced the Department and contractor to delay fixing other less critical inconsistencies between the contractor's and the Department's accounting systems.

As noted above, the Department identified the problem and took steps to correct the imbalance in the suspense account resulting from interim payments, but continues to correct the remaining difference. Current receipt reconciliation activities are showing much greater consistency in the required cash receipting procedures. Manual correcting adjustments have been made and continue to be made regularly to make up for the deficiency in FISCAL transaction processing. Through these measures, the current debit balance has been reduced and corrections continue to be made.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

FINDING 11S-4

Rotary fund checks paid to Medicaid providers lack appropriate controls and documentation.

The Department uses a rotary fund to issue checks promptly for various travel and miscellaneous costs. On occasion, the rotary is used for other payments because the warrant issue time frame is not prompt enough to resolve the emergency or other conditions.

During fiscal year 2011, the Department issued \$3.7 million of rotary checks to Medicaid providers due to delays in implementing the new Medicaid payment system (MMIS). However, we noted that appropriate controls and documentation were not developed for each rotary check issued to Medicaid providers as follows:

- a) Sixteen checks were not properly coded to isolate these from other standard transactions.
- b) Two checks did not result in an accounts receivable record, as required for similar payments to providers.
- c) Three checks lacked any supporting documentation other than the request form approved by the project manager.
- d) Two checks were not supported by a provider request form or other documentation identifying the request.
- e) Checks were issued to an individual or organization inconsistently for the same provider. For example, one provider received five rotary payments, three of which were issued in the organization's name, and two were issued in an individual's name.

In addition, evidence was not available to ensure that the Medicaid provider was eligible for the payment, that the amount was supported by outstanding claims, or that the situation required the use of the rotary fund to make a prompt payment.

RECOMMENDATION

We recommend that the Department establish procedures to properly authorize, document, and track all checks issued through the rotary fund.

AGENCY'S CORRECTIVE
ACTION PLAN

The Department did not anticipate needing to issue emergency payments to providers. Due to problems with the new Medicaid system, many providers did not get paid. Especially on the heels of unrelated payment holdbacks, the Department had to act quickly and decisively. The success of getting stabilization money promptly into the hands of providers prevented economic catastrophe for many of them.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

The Department has established procedures to properly authorize, document, and track all checks issued through the rotary fund. The Department agrees that these existing standards were not followed when issuing some of the emergency interim payments through the rotary fund, particularly relating to documentation. The Department has updated its policies to make sure that future emergency use of rotary will require adequate documentation.

Again, the Department did not plan for or anticipate needing to issue a large volume of emergency payments to providers and was forced to act quickly and effectively to get stabilization money into the hands of providers.

FINDING 11S-5

Revenues and expenses were overstated by \$181 million because reimbursements were not reported correctly, in accordance with accounting standards.

The Department collects a significant amount of reimbursements for costs incurred, primarily in the Medicaid program. This includes amounts for drug rebates, insurance recoveries, cost audit settlements, and overpayments from providers. These collections are recorded in the Department's FISCAL accounting system as revenues, and properly recognized for federal grant accounting and reporting purposes. However, financial accounting standards require that reimbursements be recognized as reductions of expenses to avoid overstating financial activities on the *Statewide Comprehensive Annual Financial Report (CAFR)* issued by the State Controller's Office.

During fiscal year 2011, the net amount of reimbursements recorded as revenue by the Department was \$181 million, nearly double the amount collected during the prior year. Most of the increase resulted from interim payments and recoveries in the Medicaid program. These reimbursements were recorded as revenues and effectively overstated the financial activities of the Department on the *CAFR*. In addition, the value of accounts receivable reported at year-end was also overstated, because these reimbursements were improperly included in the calculation. No process is currently in place to properly exclude reimbursements from the revenue, expenses, and calculation of accounts receivable. As a result of the audit, the Department submitted adjustments to the State Controller's Office to correct the values reported as revenues, expenses, and accounts receivable.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

RECOMMENDATION

We recommend that the Department develop a process to provide year-end data to the State Controller's Office that identifies reimbursements to be excluded from revenues and expenses and to also exclude these amounts from the calculation of accounts receivable at year-end.

AGENCY'S CORRECTIVE
ACTION PLAN

The Department agrees that cash repayments received from Medicaid providers were incorrectly recognized as revenue when they should have been recorded as an expenditure refund.

The Department made adjustments as the result of this year's audit process and will develop a year-end process to assure that refunds are recorded correctly in the future.

LABOR, DEPARTMENT OF

FINDING 11S-6

Federal unemployment insurance (UI) benefit activity was reported incorrectly.

Government Accounting Standards (GASB #33) require federal UI benefit revenues and expenditures to be included in financial reporting.

Federal UI benefit revenues were not receipted into the accounting system and expenditures related to the federal UI benefits were netted against cash draws in the accounting system. This process resulted in federal UI benefit revenues and expenditures not being reported in the statewide CAFR.

In fiscal year 2011, the federal UI benefit revenues and expenditures were both originally under-reported by \$257.2 million; however, adjustments were made to correct the reported activity.

RECOMMENDATION

We recommend that the Department properly report federal UI benefit revenue and expenditure activity.

AGENCY'S CORRECTIVE
ACTION PLAN

The Department has consistently reported federal Unemployment Insurance (UI) benefit revenues and expenditures as instructed by the State Controller's Office (SCO) and Legislative Services Office (LSO) in the 1990's. The amount of federal UI benefit revenues and expenditures in the 1990's was very small and not material. Of course, that is no longer the case since the Department

STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

has paid over \$800 million in federal benefits since 2007.

Several months ago, when we were informed that federal UI benefit revenues and expenditures were not being reported correctly, we met with staff from the State Controller's Office and Legislative Services Office. We expressed concern that the Department had reported these revenues and expenditures as instructed, and now the interpretation of how to report them had changed. We requested a GAAP citation of the reporting requirement for these transactions. SCO staff contacted the Governmental Accounting Standards Board (GASB) and requested guidance on reporting federal UI benefit revenues and expenditures. GASB was reluctant to provide written guidance and indicated there is no consistency nationwide on how states report federal UI benefit revenues and expenditures. SCO and LSO stated that their interpretation of the GASB requirement was that all federal UI benefit revenues and expenditures be reported.

The Department will report these revenues and expenditures as most recently instructed by LSO and SCO. For the current state fiscal year, the transactions will continue to be recorded as they have been since the 1990's, but an adjustment on Miscellaneous Closing Package Question 8 will be made to reflect the full amount of the federal UI benefit revenues and expenditures for the year. Beginning July 1, 2012 (FY 2013) all federal UI benefit revenue and expenditure transactions will be recorded in STARS. It is possible that such federal benefits will have been discontinued by that time.

APPENDIX A – AGENCY RESPONSES



C.L. "BUTCH" OTTER- Governor
RICHARD M. ARMSTRONG - Director

IDAHO DEPARTMENT OF HEALTH & WELFARE

DAVID N. TAYLOR – Deputy Director
Bureau of Audits & Investigations
450 West State Street, 9th Floor
P.O. Box 83720
Boise, Idaho 83720-0036
PHONE 208-334-5578
FAX 208-334-5694

February 16, 2012

Don Berg, Manager
Legislative Audits Division
Legislative Services Office
P.O. Box 83720
Boise, Idaho 83720-0054

Dear Mr. Berg:

On behalf of the Department, we thank you for the efforts of your staff and for the opportunity to respond to your report. The Department of Health and Welfare has reviewed and responded to the recommendations presented in the statewide Comprehensive Annual Financial Report for Fiscal Year 2011. Enclosed is a copy of our reply to each item addressed in the audit.

If you have any further questions, please contact Steve Bellomy 334-0609.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Taylor", is written over the typed name and title of David N. Taylor.

DAVID N. TAYLOR, CPA, CFE
Deputy Director

Enclosure

DT/SB

**Idaho Department of Health and Welfare
Comprehensive Annual Financial Report
Findings and Department Response
Fiscal Year 2011**

Finding #1

The processes for recovering interim Medicaid payments are not properly established, documented or monitored.

Recommendation

We recommend that the Department improve internal controls over the handling and processing of Medicaid transactions and properly monitor all activities of the contractor.

Department Response

The Department did not anticipate needing to issue emergency payments to providers. Due to problems with the new Medicaid system, many providers did not get paid when the system went into production. This situation was compounded by the unrelated payment holdbacks due to the State's budgetary situation. Therefore, the Department had to act quickly and decisively and issue interim payments to its Medicaid providers. The success of getting this stabilization money into the hands of providers prevented economic catastrophe for many of them.

The Department agrees there were insufficiently documented processes established to monitor the issuance and recovery of emergency interim payments during the time of the crisis. Building on this experience, the Department is formalizing procedures and controls to address non-routine Medicaid transactions during emergency situations. It should be noted, that as of February 10, 2012, 98% of the interim payments have been recovered, with collections continuing.

Finding #2

Accounts receivable records were not consistently established for interim payments to Medicaid providers.

Recommendation

We recommend that the Department establish adequate procedures to ensure receivable balances are established correctly, changes are documented, and the accounts are monitored by the Department.

Department Response

The Department agrees with this finding. The Department did not anticipate needing to issue \$118 million dollars in emergency payments to providers. Due to problems with the new Medicaid system, many providers did not get paid. Especially on the heels of unrelated payment

holdbacks, the Department had to act quickly and decisively. The success of getting stabilization money promptly into the hands of providers prevented economic catastrophe for many of them.

The Department agrees there were insufficiently documented processes and controls to consistently establish accounts receivable and post payments during the time of the crisis. Building on this experience, the Department is formalizing procedures and controls to address these types of situations should they occur in the future. As of February 10, 2012, 98% of the interim payments have been recovered, with collections continuing.

Finding #3

The receipt suspense account is not properly reconciled and had an improper balance of \$22 million at year-end.

Recommendation

We recommend that the Department regularly reconcile the receipt suspense account to the various sub-systems to ensure that activity is recorded promptly and accurately.

Department Response

The Department agrees that an abnormal debit balance of \$22 million existed at year end in the Department deposit suspense account. The Department installed a new Medicaid claims processing system and soon experienced problems getting payments to providers. Finding an urgent solution to pay providers was essential to avoid financially harming providers, especially after a holdback that also delayed payments. Fixing this problem forced the Department and contractor to delay fixing other less critical inconsistencies between the contractor's and the Department's accounting systems.

As noted above, the Department identified the problem and took steps to correct the imbalance in the suspense account resulting from interim payments, but continues to correct the remaining difference. Current receipt reconciliation activities are showing much greater consistency in the required cash receipting procedures. Manual correcting adjustments have been made and continue to be made regularly to make up for the deficiency in FISCAL transaction processing. Through these measures, the current debit balance has been reduced and corrections continue to be made.

Finding #4

Rotary fund checks paid to Medicaid providers lack appropriate controls and documentation.

Recommendation

We recommend that the Department establish procedures to properly authorize, document, and track all checks issued through the rotary fund.

Department Response

The Department did not anticipate needing to issue emergency payments to providers. Due to problems with the new Medicaid system, many providers did not get paid. Especially on the heels of unrelated payment holdbacks, the Department had to act quickly and decisively. The success of getting stabilization money promptly into the hands of providers prevented economic catastrophe for many of them.

The Department has established procedures to properly authorize, document, and track all checks issued through the rotary fund. The Department agrees that these existing standards were not followed when issuing some of the emergency interim payments through the rotary fund, particularly relating to documentation. The Department has updated its policies to make sure that future emergency use of rotary will require adequate documentation.

Again, the Department did not plan for or anticipate needing to issue a large volume of emergency payments to providers and was forced to act quickly and effectively to get stabilization money into the hands of providers.

Finding #5

Revenues and expenses were overstated by \$181 million because reimbursements were not reported correctly, in accordance with accounting standards.

Recommendation

We recommend that the Department develop a process to provide year-end data to the State Controller's Office that identifies reimbursements to be excluded from revenues and expenses and to also exclude these amounts from the calculation of accounts receivable at year-end.

Department Response

The Department agrees that cash repayments received from Medicaid providers were incorrectly recognized as revenue when they should have been recorded as an expenditure refund. The Department made adjustments as the result of this year's audit process and will develop a year-end process to assure that refunds are recorded correctly in the future.

February 16, 2011

Mr. Don Berg, Manager
Legislative Audits Division
Legislative Services Office
Statehouse Mail
Boise, Idaho

SUBJECT: FY 2011 Management Report

Dear Mr. Berg:

We have received the FY 2011 Management Report relating to the *Comprehensive Annual Financial Report* for the Department of Labor. The following is the Department's response to Finding 1.

The Department has consistently reported federal Unemployment Insurance (UI) benefit revenues and expenditures as instructed by the State Controller's Office (SCO) and Legislative Services Office (LSO) in the 1990's. The amount of federal UI benefit revenues and expenditures in the 1990's was very small and not material. Of course, that is no longer the case since the Department has paid over \$800 million in federal benefits since 2007.

Several months ago, when we were informed that federal UI benefit revenues and expenditures were not being reported correctly, we met with staff from the State Controller's Office and Legislative Services Office. We expressed concern that the Department had reported these revenues and expenditures as instructed, and now the interpretation of how to report them had changed. We requested a GAAP citation of the reporting requirement for these transactions. SCO staff contacted the Governmental Accounting Standards Board (GASB) and requested guidance on reporting federal UI benefit revenues and expenditures. GASB was reluctant to provide written guidance and indicated there is no consistency nationwide on how states report federal UI benefit revenues and expenditures. SCO and LSO stated that their interpretation of the GASB requirement was that all federal UI benefit revenues and expenditures be reported.


The Department will report these revenues and expenditures as most recently instructed by LSO and SCO. For the current state fiscal year, the transactions will continue to be recorded as they have been since the 1990's, but an adjustment on Miscellaneous Closing Package Question 8 will be made to reflect the full amount of the Federal UI benefit revenues and expenditures for the year. Beginning July 1, 2012 (FY 2013) all federal UI benefit revenue and expenditure transactions will be recorded in STARS. It is possible that such federal benefits will have been discontinued by that time.

Mr. Don Berg, Manager
February 16, 2012

Page 2

I would like to thank you staff for their professionalism, patience, and assistance during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger B. Madsen". The signature is fluid and cursive, with the first name "Roger" being more prominent than the last name "Madsen".

Roger B. Madsen
Director

*Compiled and Published
by*

*Idaho Legislative Services Office
Audits Division
P.O. Box 83720
Boise, Idaho 83720-0054
208-334-4875*